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Taking Economics to Bed: An Essay about the Pitfalls and Possibilities for Cultural Economics

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Abstract:

Culture as a topic in economics is currently experiencing a come-back. On the wings of the new institutionalism, there has been increasing attention to the role of culture in explaining economic phenomena. However, it is argued that culture lacks a clear definition, and that the theoretical underpinnings of the current attempts to re-introduce culture into economics are weak.

This paper will discuss the problems and possibilities of such integration. Starting point is a historical discussion of the reasons why culture does not already play a role in economics. Once we have thus grasped the problem to its fullest, it is argued that there are three main routes for bringing culture into economics. The first route is through preferences, which the paper holds to be possible but not very illuminating theoretically; the second is through constraints, which seems more promising but suffers from several theoretical failings; and the third is as complementary deviation from the economic model. On basis of a conceptual discussion of what culture means in economics, it is argued that the third route, in spite of possible appearances, actually has the most potential. However, this project does require a move towards a more reflexive methodology. This implies a questioning of definitions of economy and culture, instead of deductive reasoning on basis of pre-given definitions, as neoclassical theory is wont to do. A 'new cultural economics', in order to be successful, would end up discussing the field of economics itself, questioning divisions that have set it apart from the other social sciences.

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Introduction

In the slipstream of the resurgence of institutional economics, the interest in the role of culture in the economy has increased in recent years as well. For decades, economics has attempted to move away from ‘soft issues’ like norms, values, beliefs, and culture, leaving those to the (other) social sciences. In recent years, however, the awareness has grown among many economists that without including these issues in analysis, it is impossible to come up with satisfactory answers to questions such as why there are vast differences in economic performance between societies. The idea of embeddedness has taken hold. The process has been helped by the new institutionalists’ explicitly conciliatory stance towards neoclassicism, which has facilitated the acceptance of a focus on institutions, norms and values in economic theory. But the interest for culture has not been limited to new institutional theory only. Also, a new literature has sprung up that seeks to relate economic performance to cultural characteristics empirically.

The growing popularity of culture in economics can be illustrated by the mushrooming pile of publications devoted to the topic. Examples include Franke et al (1991), Dieckman (1996), and Granato et al (1996), all regressing economic growth on cultural variables. Others relate culture to central bank independence and price stability (De Jong 2002), or innovation (Shane 1993). Barro and McCleary (2003) set out to establish a relationship between religion and economic growth, while others focus on the influence of trust and per capita growth (Knack and Keefer 1997). Still another literature has focused on cultural explanations of economic development, most notably in East Asia (Dore 1990; Harrison 1992; Brook and Luong 1997; Barr 1999). That these examples are part of a wider and longer-standing trend can be derived from Dimaggio (1994, 29-30), who showed that references in ECONLIT to the keyword ‘culture’ increased steadily between 1981 and 1992.

In contrast to its popularity, however, there has been remarkably little in the way of meaningful theoretical development with regard to embeddedness in economics. That culture—like institutions—matters has been increasingly accepted, but how and why exactly has hardly been subject to analytical contemplation in the recent works. In part, this neglect goes deeper. Even though many people seem to have an idea of what it refers to, ‘culture’ is a concept still in want of clear definition within economics. The definitions that are in use, such as “the collective programming of the mind that distinguishes the members of one group or category of people from another” (Hofstede 2001, 9); or the “intergenerational transmission of knowledge, values, and other factors that influence behavior” (North 1990, 37) are hardly a product of thorough conceptual reflection and discussion. As such, they leave too much questions open about the boundaries and origins of culture. In practice, they are usually narrowed down to the extent of

being replaced by operationalisations such as religion, individualism, risk aversion, or at most, a general set of values. Such operationalisations bring with them the problems that it is not clear why these issues would represent culture, even in the vague definitions provided, nor why, if they do, it has any added value to speak of culture instead of confronting these issues directly. But most seriously, without a clear delineation of culture, it is next to impossible to develop an elaborate theory of relations between culture and the economic.

In this paper, I will attempt to provide a conceptual discussion of culture and its potential place in economics. However, since culture is quite a comprehensive and far-reaching concept, I will only be concerned with culture as it appears or might appear to economics. A crucial insight is that interpretations of the concept of culture are inextricably connected with the way culture is entering economics. When authors include culture as separate category in analysis (North 1990; Granato et al 1996), we need to identify what sets it apart from institutions and the economic in general, and how these various concepts are interrelated. Therefore, the discussion of the conceptualisation of culture *an sich* is inseparable from a discussion of economic embeddedness in culture. Also, I will not be concerned with culture in the sense of art, literature and the like, but with that something else also called culture, which has commonly been identified with factors such as values, religion, beliefs etc.¹

Given these considerations, the paper is divided into three main sections. In the first of these, the history of the concept of culture is traced back, and the emergence of economics as a science not devoted to culture is positioned in this historical process. Secondly, I will discuss the potential avenues along which culture can be re-injected into economics. Based upon this discussion, a third section will address embeddedness, suggesting directions for a research agenda of a new cultural economics. The paper will end with a conclusion.

1. Economics as Cultureless Science

Before discussing the possibilities of integrating culture in economics, it is worthwhile asking why culture has not been already part of economics. After all, economics is a science devoted to the understanding of human behaviour, of which culture would presumably be considered an important aspect. However, the fact of the matter is that culture has stood squarely outside the economic debate, at least after the fall of the older institutionalist schools. For the reasons behind this omission, one needs to go back to the history of the concept of culture, and the emergence of economics as a discipline.

¹ It should be noted, though, that part of the discussion presented here might shed some doubts about the validity of this distinction.

In an illuminating article about the history of the concept of culture, Gyorgy Markus (1993) argues that culture as a concept is a distinctive characteristic of modernity. It reflects the modern idea that society and our behaviour are not entirely natural and preordained, but are—in part—the outcomes of a man-made evolutionary process. Thus, the idea of culture itself can be seen as culturally specific. It is thereby not only the outcome of a man-made evolution, but also subject to it, in the sense that the meaning of ‘culture’ has also continued to evolve further since its original introduction.

From its Renaissance conception onwards, culture has moved away from its linguistic agricultural roots very incrementally, for a long time still referring to a form of cultivation. Early on its development, it came to be used metaphorically for the development of the individual; it was applied to the ‘cultivation’ of the individual’s moral and intellectual capabilities (Markus 1993, 7-8). In the seventeenth century, a transposition occurred from the process to the outcome of the process. Soon after (late seventeenth century), this concept of culture was transferred from the individual level to the macro-level of societies, when it “began to connote the general condition that allows people to live in an organized and well-ordered (‘civilized’, ‘policed’) society, advanced in material comforts, possessing ‘polite’ urban mores, and rich in intellectual achievements” (ibid, 10). Simultaneously emerging theories of social progress and evolution made that such a notion of culture created a hierarchical dimension between “savage” on the one hand, and “cultured” on the other. Universal progress—the continuous process of perfection and improvement of entire societies—could be defined as moving away from being savage and becoming cultured instead. It might be noted that at this point (late-eighteenth century), culture meant something almost opposite to how it is commonly understood in popular versions of social science nowadays, where it refers to something particularistic and of more relevance to less developed societies.

This interpretation has its roots in another important development originating in late eighteenth-century Germany, where culture came to be opposed to civilisation. The former denoted self-actualisation and the unfolding of humans’ full potential, whereas the latter referred to alien, artificial behaviour and rules that is morally corrupting. Here lie the seeds for the common understanding of culture in social sciences nowadays, since this conception ascribes to culture a character inherent to inborn identity. Becoming cultured in this interpretation was not a process of increased artificiality, losing one’s identity in the process. Rather than that, the idea of universal progress is one of becoming what one really is (Hau 2000, 24-25).

Gradually, the idea began to emerge in the 19th century that this self-actualisation culture referred to, applied to different ‘selves’ for different societies. Whereas in historical stages-theories, societies only differed on the level of universal cultivation, now differences between

societies acquire two dimensions. First, there is the difference between the cultured and the savage; secondly, among the ‘developed’ societies, various societies are cultured differently².

These two dimensions continue to play a role until today, the first present in the ‘objectivated’ idea of culture as art and literature, and the second informing the ‘scientificated’ conception of culture as particularistic, inherent identity of a group without any notions of hierarchy. However, the former vision has never really left the scientific conception of culture completely. Interestingly enough, taking the analysis of the history of culture beyond Markus (1993), one could argue that the dynamics of this dual meaning, in combination with early 20th century imperialism led to a kind of reversal of earlier views. The view of culture as ‘being cultured’, continued in its hierarchical notion of historical stages, but—except when objectivated and referring to arts and literature—as a term made place for notions like civilisation and developedness. It referred to traits like liberal democracy, rule of law, affluence, technological knowledge, and rationality in public life. In other words, the way Western societies had become ‘cultured’ was not referred to as culture anymore, but in other terms that continued to denote universal processes.

At the same time, culture as particularistic identity was especially in use with respect to studies about the colonies, and after their independence, developing countries. Culture, in other words, became something of the undeveloped; these peoples, not yet behaving in accordance with Western norms and values, still possessed culture. Such ideas continue to dog the debate until the day of today; in DiMaggio’s ECONLIT exercise mentioned above, he found that the term culture provided a disproportional amount of hits referring to developing societies (DiMaggio 1994, 30). The hierarchy implied in the interpretation of culture as ‘cultured’ thus continued to exist, but now progress came to be the process of escaping traditional ‘culture’ and becoming rational and civilised instead, like developed nations.

For the relation between culture and economics, these developments had important consequences. When the social sciences drifted apart, separate disciplines emerged for studying different aspects of human behaviour. The idea of becoming cultured in the sense of adhering to universal principles of good, civilised, efficient conduct informed (non-institutional) economics. In the conception of economics behind Lionel Robbins’ (1932) famous definition of the discipline, it became explicitly concerned with rational choice under scarcity, i.e. that part of our behaviour that had become cultured. Particularistic, undeveloped culture was much the opposite of these universal cultured principles, and as such had no place in economics³. Culture referred to

² A parallel with the discussion about various ‘capitalisms’, emerging after the demise of the socialist model might be seen.

³ Swedberg (1994, 72) cites Durkheim in this respect, arguing that “l’économie politique classique a créé un monde économique qui n’existe pas, un *Güterwelt*, un monde isolé qui demeure à jamais identique à lui-même et au sein duquel les conflits entre des forces purement individuelles sont régis par de lois économiques immuables.” A century

those segments and aspects of society that were not developed (cultured), and not yet rational and civilised. It was marginal enough to be reasonably ignored when it came to analysis of Western societies, but with regard to developing societies and marginalised groups it continued to distort the models, provoking calls for cultural modernisation on their part (influenced by work of a.o. Parsons and McLellan)⁴. Culture became the domain of disciplines such as sociology, studying the marginal groups and classes in society and the non-rational aspects of behaviour, and ethnology, concerned with the former colonies. In other words, culture something marginal, and the opposite of what economics was about⁵.

The currently observable project seeking to bring culture and economics back together starts out from this division. This is obvious in approaches such as Coleman's, treating culture as "norms that mandate action that is not in one's own interest or proscribe behavior that is" (DiMaggio 1994, 29). It almost goes without saying, then, that this antagonistic state of affairs poses real problems for an integration of culture and economics, since to do so meaningfully would require going back on conceptions and definitions of economics as well as ideas of culture.

2. Bringing Culture into Economics

The idea of economics as the science devoted to the study of rational choice under scarcity, as argued, meant that it has not been concerned with culture. However, the fact that economics did not address culture does not mean that economics was incompatible with the concept of culture. In the basic model of economically rational choice, goals and preferences (deemed unlimited) are confronted with means or constraints, bringing about scarcity. If we hold on to such a model, there are three main openings through which one can bring in culture.

Culture as Preferences

The first opening is through preferences. Neoclassical economics, while studying choice on the basis of individual preferences, has always explicitly left the formation of preferences outside its analysis. Rather than that, neoclassical theory dealt with individual choices, *given*

later, the same point would be made by Bourdieu (1998), indicating its continued relevance. The point was perhaps most explicitly made by one of the founding fathers of modern neoclassical economics, Vilfredo Pareto, who argued that a distinction ought to be made between strictly economic behaviour, being the outcome of "a series of logical reasonings", and behaviour determined by what he called "custom" (Pareto 1972, 29-30; Bourdieu 2005, 209).

⁴ This situation can be said to have been informed by a kind of ethnocentrism describing the civilised, economically rational way of doing things as universal, while other ways of doing things were reduced to non-rational, norm-breaking culture (Bourdieu 2005, 5). Economics, as a result, has always found itself betwixt and between, claiming to be a positive science—describing and analysing an aspect of behaviour—while often being accused of being normative. The reason is that while economics might possibly be 'positive' when it comes to analysing economically rational behaviour, it is normative in focusing on this type of behaviour as universal standard.

⁵ With non-economists dealing with such marginal aspects of behaviour, the meaning of their analyses was restricted to "compléter les analyses déjà existantes des économistes" (Swedberg 1994, 33). Bourdieu (2005, 210) argues that this "distinction (is) still present today in the minds of economists, who leave the curiosa or failings of economic operations to sociologists".

certain preferences. If we take culture “as the basis for individual preferences (goals) and beliefs” (Sun Ki-Chai, 1997, 45), then, we are able to fill in substantially the formal models of neoclassicism. This is the line—at least implicitly and indirectly—taken by the many recent empirical studies into culture and the economy on basis of large-scale, cross-country survey data, such as (De Jong 2002), (Shane 1993) or Barro and McCleary (2003). The argument in such studies runs that, for example, if people are risk-averse, they will choose risk-reducing social arrangements such as bank credit, whereas risk-loving people will opt for stock markets to finance their investments.

This line of research does not alter the neoclassical model, but applies its abstract predictions over choice to concrete, substantial decisions. Although such research is conducive to answer many specific questions, such as why stock markets are more developed in society A, it is not that interesting theoretically. Merely filling in the preferences within the neoclassical model does not amount to any theoretical insights, nor does it make clear what would be the difference between culture and other sources of preference, so that to speak of ‘culture’ instead of ‘preference’ has no genuine added value. In a sense, the approach is similar to market-research; we can predict which ‘product’ people will choose, on basis of their preferences we studied. Only when combined with an elaborate theory about the nature, emergence and development of cultural preferences, such work could fundamentally contribute to our understanding of the economy. Unfortunately, such a theory is hardly available in the data-sets of Hofstede, Inglehart, or Schwartz underlying most of this work. That is not to say that this work is entirely devoid of theory; but a theory about the origins and development of cultural values is absent. For this reason, this line of work fails to have a wider relevance than to the specific, empirical cases it addresses.

Culture as Constraints

A second route to impute culture into economics is via the other given in the rational choice model: constraints. This is the way culture is approached in new institutional economics, which treats culture as a constraint for institutional development.

The core idea of new institutional economics is that institutions, the “rules of the game” as they are defined, “define and limit the set of choices of individuals” (North 1990, 4), posing the constraints for individual choices. Because they channel human behaviour and reduce possible courses of action, institutions have a dampening effect on uncertainty and transaction costs. A main problem with this line of argument is that institutions are basically rules that are human-made and do not exist prior to society. In other words, they need not be as they are, and because of that, are no constraints in the neoclassical sense of the term. Institutions can only

constrain if people are bound by them, not when they are contingent agreements that can be altered.

The solution of this problem, given by many new institutional economists, is to argue that there are limits to institutional change, posed by the fact that their adaptation is constrained by other factors—such as culture. The whole system can be seen as existing of several levels, each level providing the context in which decisions at a lower level must be made. Note, however, that allocations at each level are established in a way very similar to neoclassical reasoning. Agents, having certain preferences, are confronted with relative prices and decide upon an allocation on basis of that confrontation. If an institutional structure is to change, therefore, “the sources of change are changing relative prices or preferences” (North 1990, 83).

This argument can be found with authors such as North, claiming that institutions do not change very rapidly or profoundly (North 1990, 83) because formal institutional structures are set by underlying informal institutions and by culture. Changes in formal rules that go beyond the informal institutions of a society are unlikely to be effective because, due to enforcement costs, efficacy requires people believing formal rules to be just (North 1992, 478). Stability, then, “is accomplished by a complex set of constraints that include formal rules nested in a hierarchy, where each level is more costly to change than the previous one” (North, 1990, 83). Therefore, even revolutions and discontinuous changes tend to portray a high level of continuity, in spite of possible initial appearances. The reason for this is that “formal rules change, but the informal constraints do not” (North 1990, 91). Culture, in this argument, is fairly stable and its development occurs outside the conscious intervention of individuals. It is the ultimate source of scarcity; without its stability, institutions would not provide constraints, because they could be changed at will. Because institutional development is checked by culture, it changes only incrementally. This idea is captured in the term embeddedness⁶.

The idea of changes taking place in various levels with each lower level being embedded in slower changing higher levels has also been adopted and worked out by other authors, such as Lal (1998) and Williamson (2000). Both of them, minor differences notwithstanding, distinguish several levels of human behaviour, from specific allocation on to legislation, culture, and levels like evolutionary biological constraints and material natural constraints, each higher level setting the limits for adaptations inside the level beneath it. As in North’s work, to the pure idea of embeddedness the idea is added that higher levels typically change more slowly. The explanation

⁶ The concept of embeddedness can be traced back to Polanyi (1944), and has been widely used in institutional economics, although it is still felt by many that it “remains in need of greater specification” (Smelser and Swedberg, 1994, 18). Indeed, there seem to be some possibly important theoretical differences between the ways in which it is understood by for example Granovetter (1985), Williamson (2000), or North (1990). Amusingly enough, North (1990) actually uses the term ‘imbeddedness’ rather than ‘embeddedness’, whereas in later writings about new institutional economics, it is the word ‘embedded’ that generally came to be used. This in itself goes some way in illustrating the idea of path-dependency and the reproduction of recognised meanings.

differs somewhat, however. Lal explains it as slower and faster working equilibrating forces; in his view culture could be perceived as equilibrium, since both can be described as a state “where self-seeking agents learn nothing new so that their behaviour is routinised” (Lal 1998, 7). If one is prepared to see institutions and culture as social equilibria, “there are...a number of different processes with their respective equilibria that could explain social outcomes. They can be distinguished by the period of time over which the equilibrating forces work. The quickest working is the market process of supply and demand, which leads to a market equilibrium. The second fastest are the processes leading to an equilibrium regarding material beliefs, which determine the organisational framework within which the market process operates (or, as in controlled economies, does not operate). Changing signals from the environment can alter such material equilibria within the lifetime of a generation. Slower moving are the cultural equilibria associated with cosmological beliefs. These would seem to require at least a generation or two to alter. Finally, there is the evolutionary equilibrium associated with the “selfish gene”, which is the slowest moving of all and for all practical purposes can be ignored in our investigations, except for its legacy on our minds” (Lal 1998, 11-12)⁷

Williamson (2000) puts forth a similar idea, which he exposes graphically in the following model of institutional changes (figure 2.1), although strictly speaking, Williamson reserves the term embeddedness only for the highest level, of informal institutions, traditions, etc.

Figure 2.1 Economics of Institutions according to Williamson⁸

Level	Frequency	Purpose
Embeddedness: Informal institutions, customs, traditions, norms, religion	10^2 to 10^3	Often noncalculative; spontaneous
Institutional Environment: formal rules of the game—esp. property (polity, judiciary, bureaucracy)	10 to 10^2	Get the institutional environment right 1 st order economizing
Governance: play of the game—esp. contract (aligning	1 to 10	Get the governance structures right. 2 nd order economizing

⁷ As indicated, Lal (1998) argues that various levels should be seen as social equilibria; subsequently, he argues that there are differences in the pace of adjustment between various levels, because of differences in the equilibrating forces. However, apart from being tautological when explaining slow change with slow processes, this argument suffers from an apparent misunderstanding of the meaning of slow equilibrating forces. If such forces work slowly, the result is not that the equilibrium is more stable; the result is that states of disequilibrium will last longer, to the extent that equilibrium will never be reached. If that is the case, the view of culture as social equilibrium is not tenable, and the theory would predict cultural instability rather than stability.

⁸ Taken from Williamson 2000, 597.

governance structures with transactions)		
Resource allocation and employment (prices and quantities; incentive alignment)	Continuous	Get the marginal conditions right. 3 rd order economizing

What does this mean for the place of culture in economics? Frankly, very little. Although culture is important in being the source of ultimate constraints, the theory says little about what culture is and even less about how it develops. As North argues, “cultural evolutionary theory is in its infancy and is not of much immediate value in analyzing changing specific informal constraints, except for one important point: the persistence of cultural traits in the face of changes in relative prices, formal rules, or political status makes informal constraints change at a different rate than formal rules” (North 1990, 87). From this point of view, North’s definition of culture as intergenerational transmission of factors that influence behavior (North 1990, 37) is not surprising; culture in this theory comes into play as a source of constraining factors, but is not analysed, or even defined directly. The question, however, is whether it makes sense to be concerned with culture at all instead of focusing on informal institutions and knowledge directly. What is more, given the absence of a substantive definition of culture, it is by no means clear what the difference between informal institutions, knowledge and culture would be; yet, all these concepts are used separately (e.g. North 1990). Culture, in new institutional economics, seems to serve as a stop-gap to maintain the choice-under-scarcity model. Apart from that, it attracts or warrants very little interest.

Problems with Culture as Constraint

As argued, the role ascribed to culture in new institutional economics is both quite fundamental and marginal. It is a necessary prerequisite for the theory to hold, but apart from this purpose, little attention is paid to it. Certainly, North’s remark about cultural evolutionary theory being in its infancy—which, by the way, is certainly only the case within the habitat of new institutional economists—can be seen as an invitation to devote more attention to the subject. Similar, more explicit calls have come from Williamson (2000) or economic sociologists Smelser and Swedberg (1994, 18). However, one could doubt whether the theory of a hierarchical, nested system of institutions does not crucially depend on culture’s current status as a black box. In North’s case, it is precisely because ‘cultural evolutionary theory is in its infancy’ that he is able to treat it as an exogenous source of constraint. Reflection on the concept of culture, as developed in new

institutional economics, might very well undermine this function, causing the entire theory to collapse.

However, such reflection upon the position of culture in new institutional economics is indeed warranted, and if it leads to a collapse of theory that should only be welcomed⁹. The understanding of culture as constraint for institutional development implies two things. First, culture is deemed to be relatively static, and second, culture develops according to structural mechanisms, so that it is to be considered a given by individual agents. There are various problems with this view. To start with the first, the idea of culture changing only slowly—in the course of a thousand years—is rather puzzling, when considered. What is it taken to mean that culture takes about a millennium to change, as Williamson wants it? Does it stay the same for 999 years and 364 days, only to be replaced overnight then? That would seem rather absurd; presumably, Williamson argues that culture changes incrementally, in a continuous process. However, if the process is continuous, culture changes in a split of a second as well as in a thousand years. Against that, it could be argued that the process might be continuous, but it entails a complete overhaul only in ten centuries. For that argument to apply, though, one needs to specify what amounts to a complete overhaul of culture. That would, for one, require a clear delineation of culture. Still, even then, it could easily be maintained that no two cultures can be found in the history of humankind that do not share any aspect, so that complete change in that sense is not meaningful.

Basically, the problem is that one needs a benchmark against which one can measure the pace of cultural evolution. If everything changes constantly, concepts like pace of change have no meaning. Before ideas about incrementality begin to make sense, we need to have in mind what we consider to constitute a fundamental overhaul of our society. We need to define something that stays the same in incrementality; we need to invent continuity. In other words, we need a structural principle ordering history, which itself does not change, and against which' background institutional and economic evolution can be read. We need a structure that is not subject to the mechanisms governing the economic.

Culture as Complementary Deviation from the Model

Interestingly enough, culture, societal values, and beliefs seem to perform that role. These are to a very large extent the things we as a society consider to be constant and fundamental to our societal identity. If *these* things change, it constitutes a fundamental overhaul for they are what we deem continuous in our development. Consider norms for example; what distinguishes a norm from an action is precisely the idea that it is not specific to a certain moment and place, but

⁹ Not in the least, perhaps, because of character flaws on the author's part.

continuously repeated over time in a society. Similarly, the difference between a value and a specific opinion is that a value is deemed to be rooted in society and its history. Culture, in this respect, refers to those aspects of our society we consider as intrinsic to its identity and stable. When we stop considering these as stable, they stop being our culture. Culture serves as the structuring principle, binding past and present with an unchangeable historical identity, against which evolution and economic change can be understood.

Culture, then, serves the role of being the deviation from the economic model. It does not do so in the way of Coleman mentioned above, who seems to invoke it simply to save his theory. It does so in the fundamental, constitutive way of economic practice. Society creates separate spheres for culture and the economic, which are subject to different principles and mechanisms. Those things belonging to culture evolve very slowly over people's head, and are intrinsic to a particular people's identity. By contrast, what we consider as belonging to 'the economic', we deem susceptible to universal principles of economic behaviour. Aspects like allocation and production can be altered quite easily, but such development happens according to certain mechanisms that govern the economic realm of our society.

This also sheds some light on the difficulty of distinguishing between informal institutions and culture. Substantially, there is no difference between them, but the fact that 'culture' refers to those institutions we ascribe to culture, particularistic and unchangeable. Other institutions belong to the politic, or the economic; thereby they are susceptible to discursive change or governed by universal principles. In other words, we need not think of institutions as embedded in culture, but of culture as referring to those institutions we think as embedded. Culture is what we may call *essentialised structure*.

This leads us to a problem with the second assumption underlying the idea of culture as constraint. As argued, this interpretation portrays cultural evolution as a process that is outside the realm of calculative influence of individuals. The theory of cultural evolution that underlies new institutional economics, in this sense, is structuralistic—although it is so in a very underdeveloped way. It might be noted that this is a striking anomaly within a theory claiming to rest on methodological individualism. In the model set up by Williamson, there is a sharp break in the mechanisms behind societal development when the level of embeddedness is reached. All of a sudden, the theories about allocation and (boundedly) rational choice do not apply anymore on this level.

This anomaly, however, occurs for a reason. It happens because culture is culture because the social structures involved are not perceived as belonging to the economic or the politic anymore. Therefore, people do not consider these structures to be alterable calculatively. However, if people consider certain structures as unalterable givens, they indeed will not attempt

to alter them calculatively, and thus, they will develop in a 'spontaneous' manner. In a sense, the 'given' nature of culture, then, is a kind of self-validating process.

Similarly, the fact that culture is considered to be relatively stable is self-validating. Arguing that certain institutions are cultural has the effect of freezing them, adding a veneer of anciennity and untouchability. People will stay away from trying to adapt them, because they are not subject to political but sociological debate. In this way, the very fact that people consider something 'culture' makes it harder to change.

All this does not mean that culture indeed cannot change. However, because culture is deemed unchanging, stable, and given, it changes by rewriting history. When looked upon from a distance the purportedly 'Judo-Christian culture' of Europe, for example, does not refer to the same values and beliefs nowadays as it did in Victorian times. Yet, then, as now, the very idea of such a culture implies the thinking of a long-standing continuity in 'Judo-Christian' identity. In the process of cultural change, the history in which our identities are rooted has changed along. Similarly, beliefs about cultural identity in most Western countries nowadays refer to national culture, which is taken to go back centuries if not longer. However, two centuries ago, and in some places considerably more recently still, the cultural identity people attributed to themselves was almost certainly not positioned on the national level. However, these prior generations took their culture to be historically rooted as well. The changes in culture that took place in the meantime thus have replaced one history with another, precisely because the very essence of culture is the idea that it is rooted and intrinsic to one's historical identity. Culture can change, in contrast with new institutional economics; but it will take its historical, unchangeable character with it.

In that sense, the system described by Williamson is misleading. The 'embeddedness' level, with its alleged duration of change, is not a pre-given category. Structures we denote as culture could just as well be categorised as politic, making them subject to discursive debate. It is because we do not do so that they become static and unalterable. Therefore, Williamson's system should not be read as a model of pre-given reality, but as a reflexive description of how we constitute society in our thoughts and actions.

3. The Political Economy of Embedding: Towards a Research Agenda

Embeddedness as Institution

The view of culture as essentialised structure makes clear the need for reflexivity in research. Embeddedness, culture, and the economic should not be considered as a priori determined categories, but as social constructions in need of explanation. Any possible embeddedness of the economy in institutions and culture always refers to a set of structural social relations, between

the economic and the social and cultural. An investigation into embeddedness should be about the nature of these relations, which in principle could range from total separation of these spheres—disembeddedness—to complete integration. Embeddedness points at some degree of integration¹⁰.

Since embeddedness thus refers to the extent in which society creates separate spheres of the economic, social, and cultural, embeddedness of the economy in the social and cultural is not only a characteristic of institutions, but is itself an institution. Embeddedness, or the absence of it, sets the patterns and structures according to which social action is shaped; it is one of the basic “rules of the game”. As it is an institution, it needs to be investigated as such.

The question we need to ask, therefore, is not so much whether the economic is actually embedded in the social and cultural or not. After all, that in itself does not tell us very much; the answers and mechanisms behind them might very well differ from case to case, so that abstract, universal theories about it do not apply. Rather than to succumb to such temptations, one should address the questions why and how embeddedness in a particular case is constructed, i.e. which areas of social environment are classified as economic, which to culture, and what their interrelation is. Moreover, one should ask what the implications of such a constructed embeddedness or constructed absence of embeddedness are. In other words, why do some societies create separate social spheres for the economic and the cultural, while others explicitly bring the two together? How do they do so? These are the questions an investigation into embeddedness should address.

These questions are important because of the effect embedding has. As argued, to maintain that some structures are ‘cultural’, has the effect of freezing the status quo. As culture, they are not subject to debate, because they are not susceptible to change and people cannot be held accountable for it. Culture is a given. This means that to position certain structures in the realm of culture has strong political effects. It effectively depoliticises institutions.

For example, in the current debate about immigration and integration in the Netherlands, frequent mention is made of a historical culture of tolerance and gender equality the Dutch would possess. This classification has less to do with historical accuracy—gender equality in the Netherlands is, if it exists at all, a matter of the last few decades—than with a desire to position these values as fundamental and beyond questioning, and immigrants as norm-breaking outsiders. As a result, it has strong political effects, directing political discourse about integration and strengthening the position of ‘the native Dutch’ (whoever that may be) in the debate. Similarly, debates like the one about ‘Asian Values’ and ‘Asian Democracy’ in Southeast Asia served for a large part only to legitimate and support the position of (semi-)authoritarian leaders (Kim Dae-

¹⁰ One could argue that any complete integration would amount to a holistic view, which does not even distinguish between the social, cultural, and economic sphere to begin with. From that point of view, embeddedness would always imply an intermediate position.

Jung 1994; Maseland and Peil 2005). If collectivism and preferences for social order and hierarchy are part of one's culture, questioning or opposing the government is not likely. Even if you would like a different form personally, the message is that authoritarian regimes are culturally determined, so that any action to have them otherwise is deemed futile.

In this situation, to reflexively ask questions about the how and why of embeddedness construction is not only illuminating, but also serves an important political, emancipatory function. Insight in the way certain institutions have been essentialised and why discloses debate about the desirability of these institutions vis-à-vis their potential alternatives. It opens the door for a more thoughtful theory about institutional development and the role culture plays in it. To present culture as pre-given facts that cannot or can hardly be changed, as most of the new cultural economists seem to do, is problematic not only for reproducing the very ideas a cultural economics seeks to investigate, but also for harnessing and legitimising a political status quo in this process of reproduction. Awareness of and reflection upon such pitfalls is a must for a new cultural economics to be of any value. Rather than confirming essentialisation, a cultural economics should focus on the political effects of embedding, and the motivations behind it. Only thus, it can make an important contribution to the improvement of social theory and social practice.

Reflexive Definitions

Normally, one might expect an inquiry into the concept of embeddedness to start out from a few, clear-cut definitions about what we understand by economy, culture, and institutions. However, the above formulation of the problem of embeddedness highlights the fact that pre-given, abstract delineations of culture, institutions, and economy are rather problematic. Since embeddedness is to be seen as a social construction, the division between culture, institutions and economy is a rule applied to society rather than a clear logical categorisation springing from inherent qualities. If someone goes to a bank to deposit money into his or her account, is that act economic, cultural, or institutional? Any answer to that question—including the one that it is all three—is informed by the degree and manner of embeddedness in a society. We might consider it a purely cultural act or a purely economic one, which indicates a strong dis-embeddedness, or an act with both economic and cultural characteristics, which would imply embeddedness. The fact is that a definition of economy, culture, or institutions constitutes a rule applied to society, and is thus an institution¹¹.

¹¹ As Wuthnow argues, theories of culture “dichotomize human behavior in two realms, one characterized as concrete observable behavior or social structure, the other as thoughts, beliefs, and ideas which could be understood by attributing them to aspects of the former” (Wuthnow 1984, 19). Rather than following such dichotomisation, we should ask why and where these realms are separated and brought together.

The fact that definitions of culture, institutions and economy are institutions themselves and thus might vary over time and place means that the concepts resist an abstract, universal defining. There are no inherent structural divisions along which we can delineate the cultural from the institutional from the economic. It is hard to see why the structure of economic rationality deserves to be set apart as a universal trait rather than an institution. What is more, as argued, it is not very clear what the difference between institutions and culture would be. Finally, if we add a concept such as ethnicity to the discussion, its distinction with culture seems to lie precisely in the question whether characteristics are attributed to primordial, even racial identities (ethnicity) and have implications in the fields of the political and the economic, or are considered to be embedded in socially constructed identity (culture) (Wang Gungwu 1988, 6). Thus, embeddedness is embedded in any definition of culture, the economic, the political, ethnicity, etc.

A definition of culture, economy, and the institutional is not just *an* institution. It is in fact *the* institution a cultural economics should seek to investigate; that of embeddedness. It is the definitions of culture and economy through which society sets them apart or constitutes embeddedness. For this reason, it does not do to start an inquiry into the nature of embeddedness with abstract, a priori definitions of culture, institutions and economy. Embeddedness centres precisely around this question: how are these issues defined by society, and to what extent are they separated in their definitions? This is the question a new cultural economics should aim to answer.

Conclusion

In this paper, I have discussed the problems and possibilities for a new cultural economics. First of all, it has been argued that there are historical and conceptual reasons why culture has not been part of the economic lexicon already, and that these reasons continue to hamper integration today.

Subsequently, I have sketched three main avenues along which culture could in principle be aligned with economics, of which only one—culture as complementary deviation of the economic model—is theoretically promising. While viewing culture as (source of) preferences may be able to solve many specific empirical questions, it does not directly contribute to the development of economic theory. There are more serious problems with viewing culture as constraint, which has been common in new institutional economics. The main problem here is that it attributes to culture an ontological status, whereas it has been argued to exist only on the epistemological level. Consequently, new institutionalist ideas about the static character of culture and its relations with the economy should be perceived as reflective of the way society is constructed socially, rather than as models of a pre-given reality.

This has as implication that new institutionalist ideas need to be approached reflexively. Simply adhering to them reproduces social structures that could equally be otherwise, and which

might preferably be otherwise. What is needed, is the insight that culture serves in many ways as opposite of the economic in the way societies are constituted. This function of culture as it appears to economists follows from the historical origins of the concept and the way the social sciences have drifted apart. Culture, in this constellation, has always referred to the marginal other, whether the agents in (post-)colonial societies or the poor and deviating in the own society. Whereas economics was concerned with behaviour according to the norm, non-rational culture began to represent the deviation from it, becoming the subject of sociology and ethnology/anthropology. As culture refers to parts of the society that we do not deem susceptible to economic mechanisms of change and development, it is a complementary deviation from the economic model, describing a set of aspects of society that do not follow economic principles.

The content of this set is not pre-determined, however. The classification of some structures as culture and others as economic is essentially a political process. For a new cultural economics, this means that awareness of the politically laden character of conceptualisations of culture and the economic is necessary. In other words, a new cultural economics ought to be primarily concerned with embeddedness as a question in itself, and not as a model for answering other questions. Definitions of the economic and culture ought not to be taken *a priori*, but to be subjected to scrutiny. The way and reasons why the economy is being embedded is the one question a cultural economics should take up. Rather than unwittingly reproducing definitions and divisions in social sciences, cultural economics carries in it the possibility of uniting the social sciences in debate. It is not an easy task; but is too much of an opportunity to let it go wasted.

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